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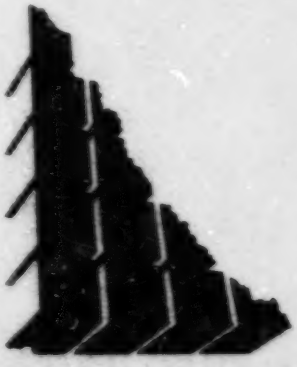

ECONOMIC RESEARCH & PLANNING

DRAFT FOR DISCUSSION ONLY

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BUSINESS DEVELOPME
ASSISTANCE PROGRAM

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1.0 INTRODUCTION

Small business entrepreneurs have been an integral component of Yukon's economy since the days of the fur trade. Private initiative and investment by individuals or small companies has been responsible for the development of placer mining, discovery of most mineral deposits in the Territory and the development of a broad range of goods and services, from haircuts to helicopters. However, in recent years the influx of government and large mining operations, combined with a variety of business impediments, has reduced the role of the small business entrepreneur in the economy.

Since 1978 the Government of Yukon has firmly believed that Yukon's business community has the potential to strengthen and diversify the economy and to stabilize investment and employment. The Yukon Government believes that through a balanced policy using a combination of private sector initiative and judicious public sector incentives, the Territory can make significant progress in the next five to ten years to developing small business.

Efforts have been made continuously over the past five years to design and finance a strong business development program. In 1980 the Government of Yukon passed the Business Development Assistance Act. which outlined a variety of business grants and incentives. Again in 1982, the Cabinet approved the Small Business Loans Act which was intended to establish a loan fund and allow for loan guarantees. Neither act was formally proclaimed due to a lack of funding from Ottawa.

In early 1983, in the face of reduced economic activity the Government of Yukon approved the spending of $200,000 to finance the "Tourism and Small Business Incentive Program". Moreover, in the 1984/85 capital budget passed in November, 1983, the government approved over $1 million for financial incentives for businesses in Yukon, particularly tourist attractions.

This report outlines the latest attempt at describing the underlying goals and objectives of a new Business Development Assistance Program, the opportunities and constraints that is faced by Yukon businesses and the programming we feel government should initiate with its capital funds in order to most effectively assist the development of Yukon's business community.

2.0 ECONOMIC CIRCUMSTANCES

The Government of Yukon estimates that there are 1,181 small businesses in Yukon as of December 1982, over 87.5% of all businesses operating in Yukon.[1] These businesses employ over 4,800 people or 40 per cent of the eligible labour force and are represented in every sector of the economy. Small businesses provide $1,650,000 in income taxes annually to the Territory, or over 90 per cent of all taxes derived from businesses in Yukon.

Small businesses are spread throughout the 531,843 square kilometres of the Territory providing a broad variety of goods and services to our citizens and in many cases offering a mechanism for diversification of the economy. For example, forestry and tourism help Watson Lake diversify away from mining while placer mining in Dawson City complements tourism and government.

The modest growth in the economy over the last decade encouraged the growth of small business in the Territory and persuaded a number of major southern companies to open subsidiary offices in Yukon. Unfortunately, the recession in 1982 severely undermined the small business community. Retail trade was down by 12.2 per cent in December 1982 as compared to 1981 with a corresponding decline in business revenue. Conversely costs increased significantly, up by 8.9% in 1982 over 1981, and bankruptcies rose sharply, up by 300 per cent in 1982 over the previous year.

Unfortunately, the fact is bankruptcies, like icebergs, expose only the tip of the problem to public view. In addition to

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1 Small businesses are defined as having annual revenues of less than $2 million and fewer than 100 employees

bankruptcies, shrinking markets lead far more companies to simply close their doors and leave Yukon.

The exodus of firms has undermined Yukon's very limited economic linkages. It has accelerated the leakages and increased the dependency of Yukon upon the south. Further, it has reduced the capacity of the economy to diversify. Many firms depend upon a combination of mining, government and tourism for revenue. To eliminate a major revenue source such as mining jeopardizes the financial viability of many businesses and hence the capacity of the economy to retain and strengthen other sectors such as tourism. Moreover, it becomes significantly more difficult to attract these businesses to return to Yukon once the economy recovers.

Concomitant with the need to stabilize the existing businesses, is the requirement to encourage new business development in areas of greatest potential. Income leakages in the form of imports represent a significant portion of territorial production. Local value added varies greatly from industry to industry. Value added goes from less than twenty per cent (20%) of total production in the mining sector to as high as seventy per cent (70%) in the traditional pursuits of trapping and fishing. Efforts to reduce this form of income leakage will greatly enhance the economy's stability.

Moreover, a wide variety of presently unemployed workers have already expressed a strong desire to remain in Yukon by investing in their own businesses. Ideas are flooding into the Yukon Government at a rate of eight to ten a week; and with judicious use of incentives and training this pool of entrepreneurial initiative could be successfully tapped, thereby stabilizing and strengthening the economy.

Overall, specific programming to assist business development can

provide a long term, stable and more diversified economy while significantly enhancing employment and the tax base of the Territorial Government.

3.0 GOALS AND OBJECTIVES

The Business Development Assistance Program is committed to the attainment of the Pearson Government goals of economic growth and diversification. However, as Pierre Lortie, President of the Montreal Stock Exchange, indicated in a speech to the Royal Society of Canada, "large businesses cannot be considered as the major source of employment or the locomotive behind growth. Small businesses are."

The Business Development Assistance Program predicated on this principle of developing Yukon's economy through the encouragement of the small business talents available amongst our people. The specific objectives intended to guide the programing are:

1. To maintain the basic business structure of Yukon communities in the immediate term.

2. To improve the number, quality and probability of success of business ventures, expansions and modernization.

3. To encourage increased Yukon content in resource development and capital projects, as well as in government procurement.

4. To increase the number of Yukoners gainfully employed in the economy.

5. To increase the sale of Yukon produced goods and services, with special emphasis on cottage industries.

6. To stimulate new investment in Yukon.

7. To strengthen economic linkages and reduce leakages through encouragement of intermediate investment.

8. To assist Yukon companies to market their goods and services outside the Territory, with special emphasis on regional and international markets.

9. To encourage small scale and co-operative entrepreneurial activity.

10. To encourage community based enterprises to grow and prosper.

11. To stimulate new product development within Yukon.

4.0 OPPORTUNITIES

The Department of Economic Development believes that there are a broad range of opportunities existing for Yukon businesses throughout northwestern North America. Initially there is an opportunity to develop new markets to replace those lost in the mining industry in Yukon. The Beaufort Sea and Norman Wells provide new market potential in the oil and gas industry; Tumbler Ridge, B.C. provides potential in the coal industry; Brinco may open possibilities in mining and Alaska has new potential for many areas including forest products, arts and crafts and construction. Prudhoe Bay has new potential for many areas includingpotential markets for barite sales while Japanese and Chinese companies are expressing interest in Yukon's finely grained spruce, as an input into furniture production.

The tourism industry in Yukon presently employs 15.8% of all Yukoners and has good potential for expansion based upon its comparative advantages of history and the abundance of virtually untouched areas. Tourism Yukon estimates that over 395,000 tourists visited the territory in 1983, spending some $51,000,000 or more than $140 per person. Yukon believes that significant

opportunity exists to double or triple these expenditures by offering visitors more events, activities and attractions to visit and in expanding their opportunities to spend money on Yukon made products. Entrepreneurs must be encouraged to develop these businesses and to capture the available funds.

A number of other renewable resources have an opportunity to develop to service local markets. The great distance between Yukon and Canadian centres of production and manufacture offer a home advantage to locally produced goods. High transportation costs provide a protective tariff wall against imported goods. While many goods cannot be produced in the Yukon as cheaply as they are produced in the South, when transportation costs are included these products can be competitive. Areas with potential include investment in smaller scale community based endeavours such as forest products, fisheries, market gardening and small manufacturing operations such as gold refineries, breweries and custom wear parts. By providing incentives to develop these areas to supply local markets, significant employment and income possibilities become available, value added is greatly increased through import substitution and the economy is both strengthened and diversified.

Yukon has a distinctive and marketable arts and craft industry. The cottage craft industry has good opportunity to grow and past studies have shown that 31% of all tourists or more than 125,000 people per year look for these distinctive products. Moreover, indigenous products including wild meat, furs and native culture provide additional avenues to explore. The Maritime provinces have very successfully exploited this market through a combination of private initiative and selective government assistance.

Yukon is located in close proximity to world markets and the opportunity for high technology industry may be profitable. Many economists indicate that other northern areas have shown that there are a broad number of "foot loose" activities which could be

attracted. As well, intermediate technology which deals with developing the strengths of local communities and small areas may have good potential. Newfoundland feels they have been quite successful in developing businesses and creating employment and income by keying on intermediate technology and building on the strengths of small communities. Funds must be made available to allow creative entrepreneurs to explore the feasibility of these ideas.

Finally, the CYI has pointed out, and rightly so, that some potential exists to develop new businesses which are capable of supplant imports but directed to the local market. Local communities must be encouraged to work together to identify and develop viable projects which originate in and give strength to the community. The Newfoundland government has successfully developed over 50 regional community development corporations.

5.0 CONSTRAINTS TO DEVELOPING SMALL BUSINESSES

If Yukon is to develop its potential, some significant constraints to business development must be overcome. From discussions with local businessmen and representatives of the financial industry in Yukon, there appear to be seven significant problems in establishing and maintaining a business in Yukon. These are:

1. INSUFFICIENT ACCESS TO CAPITAL FUNDS TO ESTABLISH THE FIRM.

2. CASH FLOW PROBLEMS DURING THE FIRST FEW YEARS OF OPERATIONS.

3. OPERATING DISADVANAGES ASSOCIATED WITH LIVING IN MORE REMOTE AND LESS POPULATED AREAS.

4. HIGHER COSTS FOR INFRASTRUCTURE REQUIREMENTS IN RURAL COMMUNITIES OF YUKON..

5. DIFFICULTIES IN PREPARING PROJECT PROPOSALS, AND BUSINESS PLANS.

6. INABILITY TO IDENTIFY MARKETS AND PENETRATE NEW MARKET AREAS.

7. LACK OF AVAILABLE INFORMATION ON GOVERNMENT PROGRAMS, INSUFFICIENT TECHNICAL AND FINANCIAL ADVICE AND/OR INSUFFICIENT MANAGEMENT CAPABILITY.

5.1 INSUFFICIENT ACCESS TO CAPITAL FUNDS.

Yukon's financial sector has improved over the years with respect to the establishment of commercial lending institutions, including the Federal Business Development Bank. However, potential entrepreneurs in Yukon, particularly those in rural areas, still have difficulty accessing this system due to the high risk nature for developing new businesses in Yukon and the limited financial resources that these entrepreneurs have at their disposal.

Yukon's banking community considers local business to be of significantly higher risk than is the case in the south, particularly rural communities in Yukon where banks have no branches. The risk is in large part due to the volatility of Yukon's economic base which increases uncertainty. In particular the most recent and dramatic drop in Yukon's economic activity has increased the wariness of conventional banks in dealing with new ventures. The risk is compounded by the isolated nature of many Yukon businesses, a high degree of business failures in the past and a tendency for Yukon businesses to be undercapitalized. In many cases, as well, the lack of business experience on the part of entrepreneurs and limited access to a broad range of business services enhances the risk.

As a result the Yukon business community is largely restricted to utilizing the Federal Business Development Bank or accessing funds under the Federal Small Business Loans Act which guarantees certain

loans. Yukon businesses have utilized F.B.D.B. and the SBLA to the greatest possible extent over the past few years. As of March 31st, 1983, F.B.D.B. has 131 customers with outstanding loans totalling $14,846,000 or about $600 per capita - eight times the Canadian average. Eighty-six loans have been guaranteed under the SBLA over the past two years with the total guaranteed totalling $2,969,737. However, as local conventional banks become more cautious with their lending practices following the great recession of 1981 and 1982, loan guarantees have declined dramatically down by 31% over the past year. Many businesses were unable to obtain financing even with guarantees as the risk is considered to be too great by southern banking standards to qualify for funding.

Investigations by the Department of Economic Development indicate that conventional banks in many cases will not accept as collateral in Yukon assets which are normally considered as highly negotiable in southern centres. Cottages, buildings and land in most Yukon communities, regardless of construction cost, are often valued by the banking community at rates far below original cost or normal assessed value. The banks follow this procedure because they feel they will have great difficulty in reselling the property, should the entrepreneur go into bankruptcy. Hence, Yukon entrepreneurs are not given fair value for their equity when compared to businesses located in southern centres and often are refused a loan.

In addition, the trend by the conventional banks to centralize loan application decision making in large regional centres, has made the banks less sensitive to local needs and increased the chances for loan refusals. Finally, in many cases when conventional banks provide loans to Yukon companies they do so at interest rates higher than that in larger centres, reflecting the higher risk of operating businesses in the north.

Normally small firms are able to fulfil their capital requirements outside the traditional institutional sources within the private

sector. Personal resources, family and friends frequently provide the required capital. As well, a broad range of venture capital firms operate in the south. Unfortunately this is not the case in Yukon as the potential holders of capital often do not reside in the Territory and are often reluctant to invest in what they perceive as a "risky" frontier region. As well, with the vast majority of the labour force in an employee role, there has been little tradition of capital formation.

The Federal government has initiated a number of national programs which are intended to increase the capital stock and business opportunities in Yukon. However, in many cases the existing funding mechanisms are either mismatched to market requirements or are directed towards special groups as part of affirmative action programs. The recently announced Industrial and Regional Development Program, is targeted to manufacturing, processing and tourist operations. The program provides financial assistance to business and non-profit organizations through grants, contributions, repayable contributions, participation loans and loan guarantees. Th minimum size of capital cost expenditure must be $25,000 and financial assistance of up to 50% of eligible capital costs are available. Funds are also available for feasibility studies and marketing assistance.

However, manufacturing and processing continues to remain relatively small sectors in our economy with little opportunity for significant contribution for many years. In the past two years, the assistance to manufacturing firms has continually been under-subscribed. With respect to tourist operations, IRDP only funds operations located within major destination areas which are restricted to Kluane Region and Dawson City.

Businesses servicing Yukon's mining industry are not eligible for IRDP funding; businesses attempting to expand or modernize in an effort to take advantage of the Beaufort Sea oil and gas activities are not eligible. Businesses wishing to develop Yukon's

renewable resources such as fishing, trapping, cottage crafts, agriculture or specialized wild game activities are not eligible. If Yukon is to meet its objectives of economic development and diversification effort must be made to build on Yukon's opportunities which include, but are not restricted to, tourist operations in selected areas. Additional funding arrangements are needed to complement the Federal programming and thereby increase the opportunities to strengthen and develop the range of opportunities open to us.

The joint Federal/Territorial Tourism and Small Business Incentive Program (TSBIP) was developed in 1983 in response to the clearly identified problems within Federal programming. The program provided financial assistance to Yukon businesses who were not eligible for other forms of Federal assistance.

TSBIP provided financial incentives to tourist operations and small businesses. The budget for the program totalled some $2.2 million, and was fully subscribed by November, 1983, some five months after the initiation of the program. In total over 145 applications were received in the first five months of the program, with funding being extended to less than 50 applicants. Of the successful applicants under this program, less than a dozen would have been eligible under the newly developed IRDP. The TSBIP clearly showed that a public demand existed for the service, a demand that the present federal programming was unable or unwilling to fill.

Special ARDA and the Indian Eskimo Development Fund (IEDF) are available as affirmative action programs intended to provide special assistance to status Indians and disadvantaged natives. The Government of Yukon and the NWT and the Council of Yukon Indians all agree that while Special ARDA and the IEDF meet certain specific needs, the majority of the business community, has no access to such important programming. All agree that there is a

need to design additional programming instruments to assist natives and other Yukoners in developing new businesses.

Finally, Yukon business potential is curtailed by the fact that business assistance programs are available in every province and territory of Canada, except Yukon. The existence of these Provincial/Territorial incentive programs add an additional cost barrier for businesses in Yukon and discourage the entry of new businesses from other provinces to the Territory. A classic example, of how this cost differential can affect Yukon, is illustrated in the case of a three person firm which relocated from Whitehorse to Atlin, B.C., due to the availability of infrastructure equalization grants, low interest loans and special development grants in British Columbia.

5.2 CASH FLOW PROBLEMS DURING THE INITIAL START-UP

New companies or companies expanding their operations usually incur significant losses in income during the initial few years of operation. This is particularly true of new entrepreneurs who must learn from their experience on the job. New entrepreneurs have difficulties in developing business contacts, attracting clients and establishing credibility. In addition, high interest charges on capital, problems in establishing markets, (particularly those outside the territory), difficulty in recruiting and training staff, and problems in developing efficient business practices are all factors that contribute to this cash flow problem. The fact that much of Yukon's economic activity is highly seasonal accentuates the volatility of cash flow requirements and enhances the requirement for access to operating credit.

Recently, this problem has become more acute due to declining economic activity and increasing competition from outside the territory. Some government assistance will be necessary to alleviate this cash flow problem during these first critical years of operation.

5.3 OPERATING DISADVANTAGES

The northern location of Yukon means restricted access to large southern markets as well as cost disadvantages relative to the economies of scale possible for southern competitors, thereby severely restricting a diversity of economic activities as well as export potential. Costs in Whitehorse were 23.6% higher than Edmonton in 1982 and 18.0% higher than Vancouver. Rural communities suffer cost differentials that can run up to fifty per cent higher than these southern communities.

Labour costs are 14.3% higher than the rest of Canada and the long distances result in significantly higher transportation costs. Whitehorse has a broad diversity of products available but this availability means inventory costs are higher and turnover lower.

Seasonality also compounds the problems of operating a business. Mineral exploration, placer mining, forestry, fishing and tourism accounting for up to 30% of Gross Territorial Product are all seasonal activities. As such, service businesses catering to these industries have less than six months in order to obtain the revenue required to sustain a full twelve month operation.

As well, the recession has severely reduced the existing local market size of many businesses. A large proportion of the retail trade, construction, transportation and communications sectors have depended, in large part, on revenue derived from the mining industry. With this revenue gone many businesses are facing significant losses and certain ones have already left the Territory. If these firms leave the basic structure of the economy will collapse, resulting in a major decline in the availability of a broad range of goods and services and the potential for significantly fewer businesses with sufficient revenue to cater to seasonal industries, particularly tourism.

Finally, businesses in Yukon are faced with a significant attitude constraint created by southern based companies operating in the North. Large southern developers in Yukon, northern B.C. and the NWT have traditionally re-supplied their operations from southern businesses in close proximity to the head office. The use of these traditional supply sources makes it very difficult for Yukon companies to break into the market place without significant and costly promotion, a factor which greatly increases the operating costs of the firm. In most cases these firms cannot afford such costs.

Government programming is required to assist Yukon firms to overcome the initial business constraints. However, the Department of Economic Development feels that any ongoing operation and maintenance subsidies discourage competition and should not be considered.

5.4 HIGHER COSTS FOR INFRASTRUCTURE IN RURAL AREAS

Many industrial projects, especially those related to enhancing the tourism industry, have not been developed because of higher infrastructure costs (such as roads, power, water and sewer) and higher energy costs in rural areas of the Territory. Infrastructure costs can be anywhere up to ten times more in rural Yukon communities than in Whitehorse. For example, to install a water and sewer system in Whitehorse costs $5,000 to $10,000 while in rural communities such as Teslin these costs can total $35,000 to $40,000. In other communities, such as Carcross, facilities required to accommodate tourist needs force businesses to install infrastructure far in excess of that required for the community itself.

The cost of industrial support services in Whitehorse is less because the burden rests on a much higher tax base and economics of scale in infrastructure development are available to reduce costs. Moreover, many communities in the south are attempting to attract

development opportunities by providing developed land at no cost. This provides a positive incentive for development. The Yukon government program "The Community Assistance Program" attempts to provide industrial land in smaller communities as a means to equalize costs but the efforts do not cover the broad range of infrastructure requirements in many cases.

The Federal energy subsidy program for small businesses, the Non-Government Commercial Power Rebate Program, in rural communities recognizes the need to equalize energy costs across the Territory as a means to stimulate business development and infrastructure equalization should similarly be recognized and supported.

5.5 PROJECT PROPOSAL DEVELOPMENT

Difficulties do exist in Yukon in developing project proposals and business plans. In most instances prospective entrepreneurs approaching financial institutions or government agencies must provide detailed demonstration of the economic viability of a project and long delays can occur in the processing of a business application, if such detail is not provided by the proponent.

These business plans often involve fairly sophisticated and expensive technical research, financial or legal advise, or feasibility and marketing studies. This is particularly true in higher risk areas such as Yukon. Unfortunately most Yukoners have neither the time nor the funds to afford the full expense or time involved in preparing these project proposals. Moreover there are many people with good ideas who lack the knowledge as to where to obtain the technical, financial or legal advice that may be required. Consequently there is a need for government to provide some financial assistance and/or advice to potential entrepreneurs in order to prepare proper and reasonable project proposals.

The joint Federal/Territorial Tourism and Small Business Incentive Program applications indicated a clear requirement in many cases

for a more in-depth analysis of the economics of the project by the applicant, a factor that led to the rejection of a number of creative ideas which appeared to have excellent potential.

The Department of Economic Development believes that technical assistance funding should be made available to allow Yukon entrepreneurs to more effectively prepare business plans and to explore new and potentially beneficial economic opportunities.

5.6 MARKET IDENTIFICATION AND EXPANSION

All previous business development programs operating in Yukon have consistently recognized that a major reason for business failure among many Yukon companies was the inability of the firms to identify and exploit their full market potential. With Yukon's economy dependent largely upon export oriented industries such as mining, hydrocarbon development, and tourism and with a large portion of the control for these operations occurring outside the territory, it is essential that efforts be made to assist small businesses to identify markets for their products and to develop mechanisms to exploit this potential.

Moreover, some companies operating in Yukon have not had to consider expanding their market area or penetrating new markets. However, with the collapse of the mining industry, these companies must develop new markets if they are to survive and make a positive contribution to the economy. At present companies losing their markets have often chosen to leave Yukon rather than expand their market area. With Yukon's traditional markets shrinking, there is a need for many businesses to expand their marketing effort into new areas. Unfortunately, most businesses are too cash poor to finance the costly efforts required to identify and promote their products in new market areas such as Alaska, northern B.C., western NWT and the Beaufort Sea. As such, government funding is required to assist these business people to do market studies in an effort

to identify new market areas and to prepare and distribute promotional material in an effort to attract new customers.

5.7 LACK OF INFORMATION AND MANAGEMENT CAPABILITY

The 1982 Dun and Bradstreet Report on Business indicates that 86.7% of failures in Canada are due to a basic lack of management skills. Many entrepreneurs in Yukon learn their vocation on the job and have only limited or no access to information and support should they encounter difficulties. Moreover, businesses in Yukon are faced with a bewildering array of federal, territorial and municipal programs, regulations and laws. Many entrepreneurs are unaware of all the various requirements. This creates personal hardship and additional costs for developing businesses. Many entrepreneurs have expressed a need for business advisory services within government intended to inform businesses of regulatory requirements to provide technical assistance in developing proposals and providing ongoing advisory services during the initial few years of operation. Business advisors and consultants are available to certain native Yukoners under Special ARDA and IEDF but the majority of Yukon's business community lacks access to basic business information and technical assistance. In the past two years, the Federal and Territorial governments have provided over $8 million under the various programs to Yukon businesses, but have failed to establish any full time business advisory services in support of these business programs. Moreover, they have failed to provide this support service at the same time that they recognize the significantly higher risk associated with the projects that they have funded.

As a result of this lack of support services to businesses, there have been a number of instances of business failures which might have been prevented. The most recent instance occurred at a rural Yukon lodge where the owner was under-capitalized and lacked the necessary business skill to overcome his problems, with the result that a valuable tourist facility may be forced to close. The

Canada Yukon Tourism Agreement and the Canada Yukon Tourism and Small Business Incentive Program have a number of other examples of good business ideas which have faced difficulties due to poor management decisions and inadequate access to business advices and assistance.

The Federal government does indicate that they have a business advisory service, called "Counselling for Small Enterprises" (CASE) which can be accessed by Yukon businesses. However, the program was accessed only 19 times in 1981/82 and only 30 times in 1982/83. This amounts to an average use rate of % by Yukon firms which compares to a use rate of % among B. C. companies. The reason for this lack of utilization in Yukon, according to business people contacted, lies in the fact that the program is slow in responding to the demand for service by the local business person, is too expensive and often provides advisors who cannot outline the required and appropriate advice to the client group. Additional Yukon specific business services are required to assist businesses to operate efficiently, particularly in the first few difficult years.

In addition, a broad range of Yukon entrepreneurs have only limited access to training programs. The present Yukon College and F.B.D.B. provide a few elementary courses which are heavily subscribed by Yukoners; but in-depth financial and personnel management courses are non-existent. Moreover, a majority of the courses are developed in such a manner as to require regular weekly attendance by entrepreneurs. In many cases it is not possible for entrepreneurs to take the time to both manage the of day-to-day affairs of the business and to take time to attend the courses.

There would be a need to develop special types of evening classes, correspondence courses and so on to deal with the needs of entrepreneurs in the Territory.

Finally, many business fail in rural communities because there are very few resources available to provide skilled management personnel to train local people and if resources can be found, the trainers refuse to remain in rural communities. Efforts have been made, with some success, in other areas to create a training corps to take one to two year assignments in remote areas. If such a corps could be established in Yukon there would be an opportunity to significantly enhance the success rate for rural businesses.

6.0 BUSINESS DEVELOPMENT STRATEGY

The Business Desvelopment Assistance Program is aimed at strengthening Yukon's economy by directing programming to small businesses in the Territory. A recent study by the Canadian Federation of Independent Business shows that firms with fewer than ten (10) employees accounted for more than 62.7% of all new jobs in Canada over the period 1975-82. Small business is the key to future growth in our economy and should be supported.

The Business Development Assistance Program is aimed at diversifying the Yukon economy by encouraging the development of renewable resource enterprises such as arts and crafts, native culture demonstrations, forestry, fishing and tourism services, by strengthening economic linkages of the supply and service industries to the resource sector, and by developing essential community business services outside of the City of Whitehorse.

The major strategy elements contemplated in developing the programming are:

1. To use the private sector as the vehicle for economic development in Yukon.

2. To build on the inherent strengths of local communities, by developing local business skills and providing avenues for

local workers to obtain employment without permanently leaving the community.

3. To train and upgrade the skills of entrepreneurs, retrain employees into entrepreneurs and where necessary attract outside entrepreneurs to establish businesses in Yukon.

4. To provide management assistance and basic information to aid the development of small business.

5. To provide special select incentives to Yukon businesses who require assistance but do not have access to existing Federal programming.

6. To develop new markets for Yukon business and attempt to break the southern purchasing myopia.

7. To equalize business opportunities across the territory by removing the impediment of infrastructure costs.

The programming will be targeted to Yukon's small business community with small businesses being defined as those having annual sales of less than $2 million and fewer than 100 employees.

Of course the key to the programming, as has been shown in both the Tourism and Small Business Incentive Program and the Industrial and Regional Development Program, is a very flexible and comprehensive program which provides a variety of incentives to meet the particular needs of prospective applicants. The experience of the Federal government's Regional Development Incentives Act clearly showed that the creation of a proliferation of programs with narrow parameters and implemented by a variety of agencies tended to confuse business people, directed funds in a haphazard manner and resulted in ineffective and inefficient programming. The Industrial and Regional Incentive Program consolidated some 90 programs into one complete and flexible package, delivered by one agency.

Yukon should learn from the painful lesson of the Federal government and initiate a single window approach to business development - and to design programming with a variety of program elements including forgiveable loans, contributions, conventional loans and loan guarantees.

Moreover, the experience of the Canada Yukon Tourism Agreement, the Small Business Retention Program and the Tourism and Small Business Incentive Program has clearly demonstrated to the Department of Economic Development the need for the creation of a Management Committee composed of government officials and successful business people. The previous programs have progressively moved in this direction due to a growing consensus that business development programming needs a private sector/public sector combination, a trong business acumen and civil servants with a strong financial administration background. We would propose the establishment of a Management Committee whose role would be to make decisions on the various applications that came forth for consideration. The Committee would be composed of two local business people, three representatives of the Government of Yukon, one representative from the Federal Department of Regional Industrial Expansion and one member from the Council for Yukon Indians. The Committee would operate in a manner similar to the Management Committee of the Small Business Retention Program with the rate formalized through legislation. The Committee would be supported by a secretariat who would be responsible for assessing applications, presenting applications to the Committee for consideration and conducting all administrative procedures for disbursing and controlling the funds under the program.

7.0 BUSINESS DEVELOPMENT PROGRAMMING

The Department of Economic Development proposes that the Government of Yukon institute a comprehensive and flexible Business Development Assistance Program which encompasses the following elements:

(a) Market Development;

(b) Business Advisory Services and Education;

(c) Opportunity Identification;

(d) Opportunity Equalization;

(e) Business Incentives.

As indicated, the programming will be directed towards small businesses within the Territory. However, eligible applicants will include individuals, commercial undertakings (businesses), institutions, and non-profit societies. In addition, funding will be provided only to those projects or activities which can show that the project is needed to develop the economy and would not proceed without financial assistance. Moreover, the project must be commercially viable or have the potential to be commercially viable. A clear emphasis will be placed on management capability. The Management Committee will just provide assistance unless the entrepreneurs can show management capability or is prepared to undertake management training in the initial years of operation.

The program will be targeted to all eligible applicants who cannot be assisted under IRDP; but priority will be given to projects which are aimed at diversifying the Yukon economy through:

(a) Developing new tourist attractions, facilities and services;

(b) Providing supply and services to the primary sector;

(c) Encouraging the development of community services in rural areas outside of Whitehorse.

(d) Pilot projects intended to demonstrate the feasibility of certain primary producing activities;

(e) Pilot projects to design or test new equipment for resource development projects;

(f) Manufacturing and processing proposals with capital costs of less than $25,000.

The program will provide funds for eligible applicants wishing to develop new businesses, to expand business opportunities and to modernize operations. The program is not intended to provide funds for business acquisition nor can the program be used to purchase land.

7.1 PROGRAM ELEMENT 1: MARKET DEVELOPMENT

Under this program element government and the business community will work jointly to overcome the basic lack of awareness of Yukon presently existing among potential clients of Yukon firms to increase the awareness of Yukon as a travel destination area and to attempt to expand the market area of firms. The program element will undertake an active program of business promotion similar to that in existence in every province and most cities across Canada. The program will complement the tourist promotion program and will consist of advertising, a business directory, audio visual presentations, development of market facts publications on Yukon communities, organizing business tours to potential client groups, and organizing and attending trade shows in Canada and Alaska. The first part of the program has already commenced, with a series of joint programs being implemented in 1983/84 with funding from the Special Recovery Program funds made available by the Government of Yukon. The program is explained in greater detail in the report, "First Stage Promotional Strategy for Business Development", which was approved for implementation in November, 1983.

In addition, funds will be made available to government, existing firms, and the Chambers of Commerce in order to investigate new market potential. Funds will be provided to complement the Federal

Product Export Market Development Program and to assist businesses in establishing contacts within various market areas.

7.2 PROGRAM ELEMENT 2: BUSINESS ADVISORY SERVICES AND EDUCATION

The Business Advisory Service would provide a core of business counsellors within the Government of Yukon to provide advice and assistance to individuals and firms during proposal preparation, give assistance in arranging debt financing, attempt to establish joint venture operations or other business forms if required, and provide follow-up support for businesses assisted under the incentives programs of the Federal and Territorial governments.

In addition to direct counselling, the business advisors would provide an information service to businesses. The service would include assistance to businesses in navigating the myriad of regulations in Yukon, advice on the more than thirty business programs in Yukon and basic information on basic business fundamentals. A series of "how to" booklets outlining in a self-help format the various steps required to begin and successfully operate a business in Yukon is a first step. These books would parallel those successfully issued in the provinces and the Northwest Territories, modified to reflect the unique business environment of Yukon. In addition, programs under way by the F.B.D.B. would be encouraged and in certain cases enhanced with the development of Yukon specific seminars and modules. Programs such as Junior Achievement of Canada and the Venture Capital Program for Youth would also be encouraged and expanded as a means of teaching our future entrepreneurs the basics of solid business management.

There are a number of instances in the recent Tourism and Small Business Incentive Program where significant cost savings and business operating efficiencies could have been instituted had business advisors been available. Moreover, there will be a greater opportunity for businesses assisted under the programs to succeed and provide long-term stable employment and income. In

short, such a program would enhance the operations of more businesses, increase the number of successful businesses and provide people operating them with a better idea of how to operate their businesses efficiently.

In conjunction with government business advisors, the Department of Economic Development proposes the creation of the Management Assistance Program (MAP). Under the MAP, proponents would be allowed to hire outside consultants approved by the Government of Yukon to provide technical and financial advice on business operations for a standard user fee of $35/hr or $100/day. The Government of Yukon would absorb any additional costs involved in hiring the consultants.

This program would be used to complement the CASE program and would be operated in close cooperation with F.B.D.B. Funds would only be available for specialized technical advice. Ongoing requirements such as accounting services would not be eligible.

Finally, in conjunction with this program, the Business Administration programs of the Department of Education could be enhanced and consideration should be given to acquiring more co-operation and specialized business programming, consistent with the needs of Yukon business people.

There is no doubt in the mind of the Department of Economic Development that the most productive contribution that the Government of Yukon can play in business development in the Territory is to nurture entrepreneurial skills through the provision of business advisory services.

7.3 PROGRAM ELEMENT 3: OPPORTUNITY IDENTIFICATION

Under this program financial assistance will be made available to entrepreneurs who wish to develop project proposals including feasibility studies, market studies, venture capital searches,

preliminary design and/or technical, legal or financial advise. Funds are to be provided to firms wishing to develop new businesses, expand business opportunities, or to modernize operations.

The amount of financial assistance payable under this program shall not exceed:

(a) where the costs incurred by the applicant in developing the proposal for the project is less than $10,000; 75% of eligible costs, and

(b) where the costs incurred by the applicant in developing the proposal are $10,000 or more, 50% of the costs in excess of $10,000, in addition to the costs provided in paragraph (a).

In no case shall the amount paid in respect of one applicant under this section exceed $50,000. Assistance will be provided only for costs incurred by consultants' studies. All consultants must be hired at arms length by the applicant and be approved by the Government. Funds will not be extended to have the applicant prepare the study.

7.4 PROGRAM ELEMENT 4: OPPORTUNITY EQUALIZATION

Under this program financial assistance will be extended to businesses for developing infrastructure in relation to a project where the infrastructure is important and essential to the success of the project. Financial assistance will only be extended to business proposals in specially designated rural areas of the Territory where the Management Committee believes the assistances will support the objectives of the business development strategy.

The intent of the assistance will be to equalize the costs of providing infrastructure in rural areas with those in Whitehorse. With this assistance a major capital cost unassociated with the

market will be overcome and the business will be able to compete on a more equitable basis.

The amount of financial assistance extended to each applicant under this program shall not exceed the lesser of:

(a) $50,000, or

(b) 50% of the amount (in excess of costs for installing the services in Whitehorse) expended by the applicant in developing the eligible infrastructure (water, sewer, power, roads). The government will also give consideration to providing serviced lots in communities on a lease purchase basis with a stipulation that it will be rent-free for five years.

7.5 PROGRAM ELEMENT 5: SMALL BUSINESS DEVELOPMENT INCENTIVES

The Canada Yukon Tourism Agreement, and the Canada/Yukon Tourism and Small Business Incentives Program, have shown the advantages which can accrue to Yukon through incentive to the private sector. As indicated previously, a broad number of Federal programs either are not attuned to Yukon's special requirements or are directed to very specialized client groups. These problems are similar to both northern Manitoba and the NWT where recent Federal/Provincial/Territorial cost-shared agreements have recognized the need for incentive funding to eliminate the programming gaps.

The program would provide a flexible approach to delivering business incentives to Yukon's small business community by providing the opportunity for prospective applicants to receive grants or interest free forgiveable loans, conventional loans and loan guarantees. In exceptional cases the government may give consideration to accepting an equity position in the operation, should over-riding public need require such investment.

The need for a flexible approach to financial incentives lies in the diversity of the projects that will be presented and in the unique circumstances involved in many cases. The intent is to provide the applicant with the minimum amount of assistance necessary to ensure that the project proceeds. In many cases this will take the form of a conventional loan, and in other cases there will be the need for some form of grant or interest free forgiveable loan and in still other cases there may be a simple need for a loan guarantee. Recent events within the Tourism and Small Business Incentive Program have shown the need for an incentives program which can be adapted to differing circumstances. The most illustrative example was a recent case in which a reasonably successful lodge owner was unable to obtain bank financing to consolidate his loan portfolio and was in need of conventional loan financing or loan guarantees. If the program is restricted to grants alone there is every possibility that a number of individuals such as this one would be given either inappropriate assistance or no assistance at all.

The business incentive program would have a number of components intended to complement the Federal programming. The major part of the program would be the provision of either grants or interest free forgiveable loans to entrepreneurs contemplating the establishment of a new business, or the expansion of an existing business. The funding program will be extended to eligible applicants as outlined in Section 7.0 with the levels of funding to be to a maximum of 50% of eligible costs of the project. Due to limited funding contemplated for the program, the maximum grant to a successful applicant would be restricted to $100,000. Under the provisions of the program, applicants proposing projects which assist in diversifying the economy, in strengthening the tourism industry in a manner consistent with the tourism strategy, and in strengthening rural communities communities, will be given priority.

If grants are chosen as the preferable option provisions will be included to ensure that a prorated portion of the grant will be recovered if the business does not continue in business for a minimum of three years. If interest free forgiveable loans are used, the loans will be forgiven at a rate of 33% per year for each year of operation by the applicant. The forgiveable loan provides a result similar to that of outright grants; but prevents the applicant from obtaining any windfall profit within the first three years. The grant system provides for recovery of funds as well, but it is far more difficult to regain lost grants than it is to foreclose on unpaid loans. Forgiveable loans, on the other hand, are more costly to administer, at least in the short term.

There is provision in the Business Incentive Program for the provision of conventional loans to prospective applicants. The conventional loans will be provided to applicants who are unable to obtain funding through the regular banking community. While there will not be a specific provision that the Government of Yukon must be the lender of last resort, it is expected that the applicant will have made an effort to operate within the existing banking community to the extent possible. Conventional loans may also be included in support of the forgiveable loan or grant portion of the program, if the Management Committee feels that such an arrangement would increase the possibility of success of a desirable project. Conventional loans will be extended at a rate ranging between prime minus 5% to prime plus 5%, depending upon the requirements of the applicant, the risk of the project and the availability of funds from other sources. The maximum loan will be 25% of capital costs associated with the project up to $100,000 with the term to run from 3 to 7 years. Loans at rates below prime plus one per cent will only be extended to firms who do not receive other financial assistance under this or a federal program. The intent of the low interest loans is to supplement rather than complement the grant and forgiveable loan portion of the program.

With respect to loan guarantees, the Government of Yukon will extend loan guarantees in special circumstances where the Management Committee feels that such guarantees would ensure the continuation of a project deemed to be in the public interest. The loan guarantees will be for a maximum of 90% of a loan from a chartered bank, on loans over $100,000.

Conventional loans and loan guarantees will only be provided if the business can demonstrate the ability to repay the loan, and show that the management will be strong and effective.

8.0 ALTERNATIVE PROGRAMMING

In addition to the programming outlined previously there are a few other programs which we have not included as yet. However the Government of Yukon may wish to consider other programming such as: Interest Rebates, Local Development Corporations, and a Tourism Facilities Improvement Program.

8.1 INTEREST REBATES

As indicated previously, many businesses face problems associated with maintaining a reasonable cash flow over the first few years of operation, particularly in the cases where businesses have high debt loads. In an effort to reduce the impact of interest charges upon businesses, the Department of Economic Development proposed in 1980 that the Government of Yukon consider providing an interest rebate program.

Under the interest rebate program, financial assistance would be made available for reimbursing an applicant for interest costs incurred in carrying out a project. The program provided for the reimbursement of a portion of the interest charges on loans extended by the chartered banks for the purpose of establishing a new business or expanding an existing business. The funds were provided on loans used for eligible capital costs of a new project,

excluding acquisition costs and the costs of land. The program allowed for returning 75% of the interest charges incurred in the first year following approval of the loan, 50% of the interest charges following the second year, and 25% of the interest charges following the third year. No payments would be covered after that time. In addition, the maximum loan to be covered was $500,000. In the case of an expanding business the interest rebate was 37.5% in the first year, 25% in the second year and 12.5% in the third year.

The government could give consideration to implementing this program as an alternative to the provision of low interest loans. Such a program was instituted by the Federal government when interest rates were very high in Canada. The Federal Small Business Incentive Grants were considered to be only partially successful due to a number of administrative problems. First, the costs of administering the program, particularly the monitoring phase were considered to be very high. Second, there was a tendency for firms to take out very short term loans on assets which tended to increase the amount of effective grant provided to the applicant without necessarily reducing the debt load of the firm. Third, since the firm was not reimbursed until the end of each year, there was a problem of premature bankruptcy in some cases and an extension of the period of business collapse in other cases.

Nonetheless the program is still one that the Government of Yukon may wish to implement.

8.2 LOCAL DEVELOPMENT CORPORATIONS

There are over seventy (70) Local Development Corporations across Canada, with the majority of the corporations existing in the Maritimes. The corporations bring together the resources of individuals in local communities to exploit the economic development potential of their areas. These corporations have initiated a broad range of non-profit activities including apartment

development, auto wreckers, office buildings, consulting firms, fish packing plants, construction firms and bicycle assembly plants. The Minister of Economic Development toured the facilities of the Slave Lake Development Corporation in Slave Lake, Alberta, during the meeting of Ministers responsible for Northern Development, and saw first hand the benefits to the community created by the development of these community owned and operated facilities.

The Business Development Program could provide funds to assist in the creation and initial set up of these types of corporations. The program would provide one time only grants to assist in the establishment of the Corporations and in commencing their operations. There is some merit in this program, particularly since land claims provides provision for the creation of Band Corporations. In small communities throughout Yukon there may be merit in encouraging the creation of single community corporations through this program, consisting of both native and non-native members, rather than simply seeing native corporations be created.

8.3 TOURISM FACILITIES IMPROVEMENT PROGRAM

The Department of Tourism, Recreation and Culture created a special Tourism Facilities Improvement Program in 1983/84 with the intent of improving the appearance and aesthetic value of tourism related facilities in Yukon and to increase the amount of off season employment in the Territory. The program provided financial assistance of 75% of eligible costs to a maximum of $60,000 for successful applicants. In total twenty-four (24) applications were approved and over 200 person weeks of employment were created.
The program has the advantage of increasing the appeal of tourist facilities presently existing in the Territory, of encouraging the traveller to take advantage of the services offered by the establishment, and of providing a series of short term jobs for individuals in the off season. The disadvantages of the program are that it provides a de facto subsidy to businesses for the

purpose of carrying out ongoing maintenance, a factor which should be part of a business operations program, that it does not add permanent jobs to the Territory, and that it does not necessarily increase expenditures by tourists.

The program is very effective in assisting short-term job creation. However, it may not provide as strong a long-term return to government as can be created through the other business development programs listed earlier.

9.0 ADMINISTRATION OF PROGRAMMING

At the present time it is anticipated that the business development promotion and business advisory services would be directly delivered by the Government of Yukon, through a single window agency, namely the Department of Economic Development. The various incentives programs would be delivered through a Managaement Committee with the secretariat services being administered under the auspices of the Department of Economic Development.

The Business Promotion Program requires the services of at least one full time individual to work directly with the business community in developing business opportunities for businesses throughout the Territory. The individual would work closely with Yukon communities as well as businesses in developing a strong identity for Yukon as a place to carry out business. As well, the individual would work in cooperation with the Tourism marketing personnel in promoting the Territory. With respect to the Business Advisory Services, the Department of Economic Development believes that a strong support mechanism is required to maximize the opportunity for small business people to be successful in Yukon. At present the Department of Economic Development feels that three business advisors would be optimal in dealing with advice to proponents applying to the Federal programs (IRDP, Special ARDA, etc.) and the Territorial programs.

We are proposing the need for substantial resources in this area as it is the belief of the Department of Economic Development that this is the most important role that Yukon could play in supporting business development. We would caution the Government to not repeat the mistake many governments in southern Canada made, who hired individuals who were supposed to be both program administrators and business advisors. Without separate individuals providing the two types of services, you find that the program administrators are too busy evaluating proponents' proposals to have time to provide the type of technical assistance that proponents require. As well, you find in certain cases that the administrator in his role as business advisor becomes caught up in the project and does not undertake an objective evaluation in their enthusiasm to get the project underway. You need that degree of objectivity and commitment that can only come by separating the advisory services from program administration. Both the Federal and Territorial administrators of TSBIP have concurred with this assessment and feel that TSBIP would have been greatly enhanced if business advisors would have been available.

It is anticipated that the other components would be implemented through the Management Committee. The Committee would be responsible for making decisions on the various applications that are put forward for consideration. The Committee, as indicated previously, would consist of seven members with two representatives from the business community, three members from the Government of Yukon, one member from the Federal Department of Regional Industrial Expansion and one from the Council for Yukon Indians. The Committee would be supported through a Business Development Secretariat whose function would be to evaluate the proposals, make recommendations to the Committee and to undertake all follow-up procedures required to ensure that the funds are properly administered. Overall, the Department feels that three persons would be required to deliver the various program components.

Of course, the person year requirements in the Government of Yukon would have to be assessed in the light of the work being carried out by the consultants who are evaluating the organizational structure in the Territorial Government in early 1984. However, it might be interesting to point out that the Government of Yukon received approval from the Intergovernmental Committee to have the base increased by 844,000 in 1984/85 for the purpose of providing support for this type of program. Ottawa may be reluctant to provide further increases in the base if the funds are not directed into the areas that we indicated they would most likely be directed.

10.0 PROGRAM COSTS

In order to ensure that the Government of Yukon has a clear idea of the total cost of the programming funds that may be required for the program the Department of Economic Development has estimated the costs for the next five years. Table 1 outlines the estimated costs for implementing the complete program over the forecast period. In total the maximum cost is estimated to be approximately $17.6 million over the full length of the period. Of this amount some $7.8 million has already been identified by the Department of Economic Development and Tourism, Recreation and Culture for expenditure on business development over the next five years. In addition, the Small Business Loan provides funding for $5 million over the next five years. As such the total incremental funding that could be required, which is not approved in principal amounts to some $4.8 million over five years.

There is good potential in the opinion of the Department of Economic Development to significantly reduce the $4.8 million cost, through re-organization of the Government in order to bring together the various individuals involved in business development throughout the various departments. If the Special ARDA officer and the Tourism Development Officers were amalgamated with the present Business Development Officer into a large single window

agency for business assistance, the new staff requirements would be reduced to less than three person years. Further economies could be found by realigning tourism marketing functions to include business promotion. As well, a smaller amount of funding can be provided for extending conventional loans to various businesses or the time frame for the extending of the $5 million investment can be increased, if the government is reluctant to spend the amount of loan funds outlined in Table 4.

11.0 BENEFITS TO YUKON'S ECONOMY

TABLE 1.
PROGRAM COSTS

	PY	84/85	85/86	86/87	87/88	88/89
				($000)		
Market Development						
Staff Costs[1]	1	75.0	79.5	84.3	89.3	94.7
Other Costs[1]		140.0	148.4	157.3	166.7	176.7
Business Advisory Services						
Staff Costs[1]	3	225.0	238.5	252.8	267.9	284.0
Other Costs		150.0	150.0	150.0	150.0	150.0
Business Incentives						
Staff Costs[1]	3	225.0	238.5	252.8	267.9	284.0
Grants[2] Economic Development		531.5	1,128.5	1,196.0	1,266.0	1,339.0
Tourism		500.0	320.0	340.0	360.0	380.0
Loans[3]		1,256.0	2,256.0	2,392.0	Revolving Fund	
TOTAL POTENTIAL COST	(17,763.3)	3,102.5	4,559.4	4,825.2	2,567.8	2,708.4
Funds Presently Identified and Approved 1984/85 Budget -		1,106.5	1,527.5	1,720.3	1,715.3	1,813.7
NET POTENTIAL COST		1,996.0	3,031.9	3,104.9	852.5	884.7
Funds Identified for Small Business Loan Fund		1,256.0	2,256.0	2,392.0	-	-
INCREMENTAL COSTS		740.0	775.9	712.9	862.0	919.0

NOTES:
1. Staff costs and other market development costs were estimated for 1984/85 and escalated at 6%/year thereafter.
2. Grant funding reflects the actual funding approved in the 1984/85 budget and the budget projections thereafter.
3. Loan funding reflects the actual budget that would have been given to Yukon if the Federal Government had transferred the $5 million Small Business Loan Fund to Yukon as requested.